

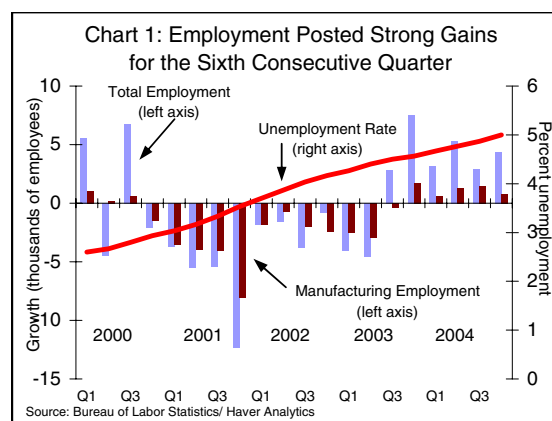
FDIC State Profile

Spring 2005

Iowa

Iowa experienced employment gains in all sectors in the fourth quarter of 2004.

- Iowa's total employment increased for the sixth consecutive quarter in fourth quarter 2004. An increase of 4,400 jobs contributed to the 15,700 jobs added in 2004. (See Chart 1).
- The manufacturing sector continued to improve with its fifth consecutive quarter of employment growth. The sector added 4,200 jobs in 2004, the first annual increase since 2000.
- Despite a significant increase in new jobs, unemployment rose to 5.0 percent, the highest level in nearly 18 years, reflecting an increase in the labor force as more workers have begun actively looking for work.



Banking performance remains solid.

- Asset quality, which suffered only modestly through Iowa's 2000-03 economic downturn, continues to improve (See Table 1). Loan activity picked up in 2004, with loans as a percent of assets increasing for the first time in four years from 61.5 percent to 64.4 percent.
- Loan growth has been centered in commercial real estate, which, as a percent of assets, increased from 10.3 percent in 2000 to 14.4 percent in 2004. Business lending has been steady, and consumer lending, including residential real estate, has declined.
- Overall earnings performance remained positive with results similar to last year. The proportion of Iowa's established institutions reporting earnings losses, which has ranged between a low 1.2 percent and 2.4 percent over the past five years, was 1.7 percent in 2004.¹

Iowa's major commodities are forecast to earn less for farmers in 2005.

- In February 2005, the United States Department of Agriculture (USDA) forecast that 2005 farm income will decline from the record level reached in 2004 (See Table 2). Iowa, which leads the nation in production of corn,

Table 1: Iowa's Insured Institutions Continue Demonstrating Healthy Conditions

	12-04	12-03	12-02	12-01	12-00
Capital					
Tier 1 Leverage Capital	9.3	9.1	9.0	8.8	9.0
Asset Quality					
Past Due Loan Ratio	1.11	1.35	1.53	1.61	1.31
Net Charge-off Rate	0.05	0.07	0.10	0.08	0.05
Earnings					
Pretax Return on Assets	1.44	1.44	1.51	1.34	1.39
Net Interest Margin	3.80	3.79	3.96	3.73	3.78

Source: FDIC. Figures are median percent values.

Table 2: U.S. 2005 Farm Income to Decline from 2004 Record

\$Billions	2003	2004	Forecast 2005	Change 04-'05
Value of crop production	108.0	119.5	101.3	-18.2
Food grains	8.0	9.3	8.2	-1.1
Feed crops	24.3	27.0	25.3	-1.7
Oil crops	17.3	18.6	14.7	-3.9
All other crops	58.4	64.6	53.1	-11.5
Value of livestock production	104.7	122.2	117.9	-4.3
Meat animals	56.2	61.1	60.4	-0.7
Dairy products	21.2	27.8	25.0	-2.8
Other Livestock	27.3	33.4	32.5	-0.9
Other Revenues	28.2	28.7	30.0	1.3
Value of agricultural production	240.9	270.5	249.2	-21.2
Direct Government payments	15.9	14.5	24.1	9.6
Inputs, Taxes, Capital	(197.6)	(211.4)	(208.9)	2.5
Net farm income	59.2	73.6	64.4	-9.2

Source: USDA Economic Research Service

¹Established institutions are insured institutions that have been in operation for at least three years.

State Profile

soybeans, and hogs, will likely experience a decline in revenues from each of these commodities.

- As a record corn harvest in 2004 more than doubled inventories, USDA projects 2005 prices will fall at least 19 percent from 2004. Similarly, a record soybean harvest that quadrupled inventories, is expected to drive down forecasted prices more than 30 percent. Hog prices are also forecast to decline slightly in 2005.
- Low commodity prices may be at least partially offset by higher counter-cyclical government payments forecast for 2005, assuring the second-highest level of net farm income in history.

Commercial banks are likely to face pressure to raise nonmaturity deposit rates.

- In relatively stable interest-rate environments, the cost of bank nonmaturity deposits typically run at about half of the Federal funds rate. When short-term rates tumbled in 2001 and 2002, however, deposit rates failed to completely follow, indicating that nonmaturity deposit rates had reached a natural floor (See Chart 2).
- Should interest rates continue to rise, banks will likely feel increasing pressure from customers to raise deposit rates.

Iowa's farmland values increased significantly in 2004.

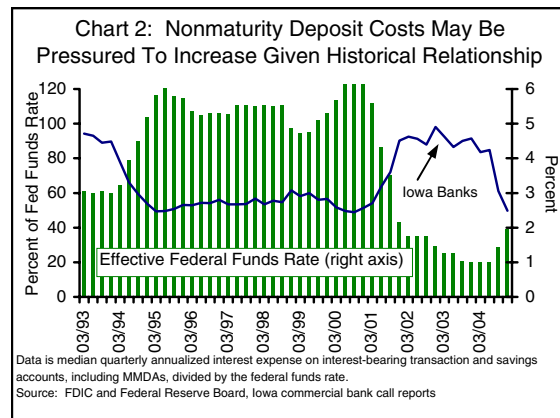
- According to Iowa State University's annual Farmland Value Survey, the average value of Iowa farmland increased more than 15 percent in 2004, compared with an annual average of 6 percent over the previous decade. The increases were distributed widely across the state (See Map 1).
- While the average price of \$2,629 per acre was the highest recorded in current dollars, farmland prices in the 1980s were considerably higher in inflation-adjusted dollars. In 1981, for example, Iowa's average land prices exceeded \$3,930 in 2004 dollars.
- Survey respondents listed low interest rates, favorable crop yields, and investment demand as the most important influences on increasing land prices.

Farm banks are concentrating agricultural lending on farmland.

- Over the past decade, farm banks have taken steps to diversify their loan portfolios, which tend to be heavy with agriculture production loans. Such loans declined from 32.3 percent of total loans to 22.3 percent between year-end 1994 and 2004 (See Chart 3).
- Despite the overall decline in farm operating loans, reliance on farmland-secured loans increased 29 percent

during that period, with much of the increase coming in recent years. The increase in farmland lending is attributable to increased demand for farmland for both agricultural and nonagricultural uses, coupled with the stimulus of historically low interest rates.

- With nearly 20 percent of farm bank loan volume secured by farmland, its price stability becomes more important. Any unexpected shocks to farmland values, such as swift increases in interest rates, significant cuts in federal farm payments, or decreased demand for farmland used for urban expansion or recreational purposes, could have adverse effects on producers and agricultural lenders.



Map 1: Iowa Farmland Values Increased Significantly in 2004

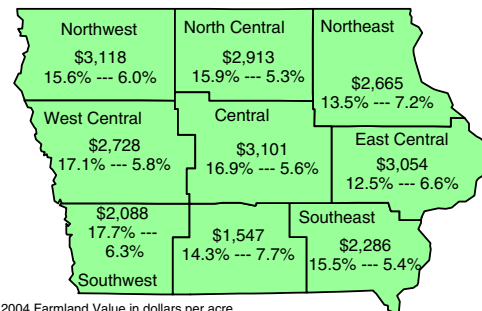
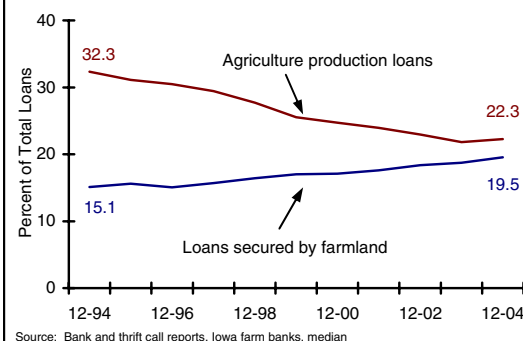


Chart 3: Lending Against Farmland Is Increasing Although Overall Ag Exposure Is Declining



Iowa at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.1%	0.1%	-0.5%	-1.8%	0.4%
Manufacturing (15%)	2.0%	-1.8%	-2.9%	-7.7%	0.2%
Other (non-manufacturing) Goods-Producing (5%)	2.8%	3.8%	-0.5%	3.6%	-4.4%
Private Service-Producing (63%)	1.3%	0.1%	0.1%	-1.3%	0.6%
Government (17%)	-0.9%	0.9%	-0.6%	1.0%	0.9%
Unemployment Rate (% of labor force)	5.0	4.6	4.2	3.5	2.9

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	3.9%	2.3%	2.3%	3.9%
Single-Family Home Permits	-1.9%	11.5%	17.1%	36.2%	-22.8%
Multifamily Building Permits	-16.3%	10.5%	-38.5%	130.1%	-48.9%
Existing Home Sales	7.2%	17.8%	1.7%	7.3%	-1.8%
Home Price Index	4.1%	4.8%	3.6%	5.2%	4.6%
Bankruptcy Filings per 1000 people (quarterly level)	1.02	0.99	0.99	0.88	0.70

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	414	422	433	441	456
Total Assets (in millions)	51,092	55,931	55,117	52,314	48,997
New Institutions (# < 3 years)	3	6	11	17	21
Subchapter S Institutions	192	188	175	167	150

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.11	1.35	1.53	1.61	1.31
ALLL/Total Loans (median %)	1.24	1.27	1.27	1.22	1.21
ALLL/Noncurrent Loans (median multiple)	2.80	2.45	1.90	2.06	2.64
Net Loan Losses / Total Loans (median %)	0.05	0.07	0.10	0.08	0.05

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	9.34	9.09	8.96	8.80	8.99
Return on Assets (median %)	1.13	1.13	1.17	1.03	1.06
Pretax Return on Assets (median %)	1.44	1.44	1.52	1.34	1.40
Net Interest Margin (median %)	3.80	3.79	3.96	3.73	3.78
Yield on Earning Assets (median %)	5.57	5.84	6.68	7.62	7.97
Cost of Funding Earning Assets (median %)	1.71	2.01	2.69	3.87	4.17
Provisions to Avg. Assets (median %)	0.06	0.08	0.12	0.11	0.09
Noninterest Income to Avg. Assets (median %)	0.55	0.57	0.55	0.53	0.50
Overhead to Avg. Assets (median %)	2.60	2.63	2.63	2.58	2.54

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	64.4	61.5	62.7	63.6	65.0
Noncore Funding to Assets (median %)	15.5	14.6	14.7	14.1	14.5
Long-term Assets to Assets (median %, call filers)	16.1	16.6	13.9	13.8	14.9
Brokered Deposits (number of institutions)	95	84	69	62	52
Brokered Deposits to Assets (median % for those above)	2.2	1.3	1.7	1.5	1.4

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	87.7	84.4	86.0	85.6	84.9
Commercial Real Estate	92.2	90.3	84.2	75.5	67.3
Construction & Development	12.1	10.9	9.6	10.3	8.2
Multifamily Residential Real Estate	2.5	2.3	1.8	1.7	1.6
Nonresidential Real Estate	70.6	66.2	57.9	57.4	47.8
Residential Real Estate	154.6	152.5	161.3	176.3	175.8
Consumer	37.2	39.7	42.4	49.3	52.2
Agriculture	218.9	216.9	225.4	231.0	232.8

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Omaha-Council Bluffs, NE-IA	75	13,804	< \$250 mil.	375 (90.6%)
Des Moines, IA	45	11,155	\$250 mil. to \$1 bil.	34 (8.2%)
Davenport-Moline-Rock Island, IA-IL	46	5,440	\$1 bil. to \$10 bil.	5 (1.2%)
Cedar Rapids, IA	42	3,750	> \$10 bil.	0 (0%)
Sioux City, IA-NE-SD	33	2,042		